

TO: San Diego Audit Committee

CC: Files

FROM: Willkie Farr & Gallagher LLP

RE: Interview of Jaymie Bradford on April 27, 2006

DATED: May 29, 2006

On April 27, 2006, Carolyn Miller and Raymond Sarola, in Willkie Farr & Gallagher LLP's capacity as counsel to the Audit Committee, interviewed Jaymie Bradford. Ms. Bradford was represented at this interview by her lawyer, Theresa McAteer, of McAteer & McAteer. This interview took place in a conference room on the 3rd floor of the City Administration Building in San Diego, and lasted approximately forty minutes.

The following memorandum reflects my thoughts, impressions, and opinions regarding our meeting with Ms. Bradford, and constitutes protected attorney work product. It is not, nor is it intended to be, a substantially verbatim record of the interview.

Warnings

Ms. Miller informed Ms. Bradford that she represents the Audit Committee and not her personally. Ms. Miller stated that, as a result, the interview is not covered by an attorney-client privilege between the Audit Committee and Ms. Bradford. She stated that information provided by Ms. Bradford may be made public in the Audit Committee's report, or provided to the government or to KPMG. Ms. Miller told Ms. Bradford that information she provides will not be shared with other witnesses and asked that she not disclose the substance of this interview to others who are yet to be interviewed.

Background

Ms. Miller asked Ms. Bradford to explain her educational and employment history. Ms. Bradford stated that she earned a Bachelor's degree from San Diego State University in political science. After college, she worked for the Building Industry Association for three years, as the Internal Communications Coordinator. In this position, she was tasked with involving Association employees in government affairs.

Ms. Bradford began working for the City in 2002 as a Policy Advisor for Councilmember Jim Madaffer, and held that position until the end of 2005. As of January 2006, she worked as Councilmember Madaffer's Land Use and Housing Committee Consultant. Ms. Bradford stated that she plans to remain in this position for as long as Councilmember Madaffer is the chair of that committee, and then plans to return to her position as Policy Advisor to Councilmember Madaffer.

Councilmember Madaffer's Office

Ms. Miller asked Ms. Bradford to describe her responsibilities as Policy Advisor. Ms. Bradford explained that, as Policy Advisor, she would handle and organize the docket on a weekly basis. This involved assigning items for other staff members to brief, and assuming responsibility for briefing certain items herself. Ms. Miller asked her which issues she worked on herself, and she responded that she dealt with transportation and regional planning in San Diego County, interaction with the California League of Cities, land use, and also public safety issues. She noted that other staff members handled issues relating to the other committees that Councilmember Madaffer chaired. Ms. Bradford explained that her work on land use issues included any citywide land use policy, such as inclusionary housing and zoning issues. Ms. Miller asked Ms. Bradford if she worked on the Ballpark development and she replied that she did. Ms. Bradford stated that she handled the traffic and public safety plan for the Ballpark, but did not recall ever seeing the bond offerings related to the Ballpark financing.

Ms. Miller then asked Ms. Bradford to explain how items on the docket were assigned among staff members. Ms. Bradford explained that each staff member was responsible for certain geographic areas, and citywide issues were divided among the entire staff. Ms. Miller asked Ms. Bradford who was responsible for pension-related issues, and Ms. Bradford responded that if anyone was responsible, it would have been herself or Aimee Faucett (Chief of Staff). Ms. Bradford stated that if a pension-related issue was not handled by herself or by Ms. Faucett, then Councilmember Madaffer would have dealt with that issue on his own. Ms. Miller asked if Ms. Bradford had any involvement at all with pension-related issues, and Ms. Bradford replied that she did not recall. She stated that she dealt with many issues, and pension-related issues were not significant enough at the time for her to remember them. Ms. Miller asked if she had any contact with CERS officials or engaged in discussions with other officials regarding pension-related issues. Ms. Bradford responded that she had been in meetings with Ed Ryan (City Auditor), but could not recall if those meetings regarded pension-related issues.

Ms. Miller asked Ms. Bradford if she was aware of the subject matter of the Audit Committee's investigation. Ms. Bradford stated that she was generally aware of the subject matter. She stated that she probably became aware of the investigation "when everyone else did, in the paper." She recalled that subpoenas were issued around that time, but did not recall exactly how she first came to learn of the investigation. Ms. Bradford did not recall if she had assigned any pension-related issues to staff members after hearing of the investigation.

Shipione Allegations

Ms. Miller asked Ms. Bradford if she knew Diann Shipione (SDCERS Board Member), and Ms. Bradford responded that she knew of Ms. Shipione, but not on a personal level. Ms. Bradford stated that she knew "generally" the allegations made by Ms. Shipione, and was probably present at the Council meeting where Ms. Shipione made a "non-agenda public comment." Ms. Bradford did not prepare, or delegate to anyone else to prepare, briefings for Councilmember Madaffer to respond to Ms. Shipione's allegations, and did not recall any discussions concerning her allegations.

Other Pension Issues

Ms. Miller asked Ms. Bradford if she was aware of the Blue Ribbon Committee (BRC), and Ms. Bradford responded that she was, and that this Committee was appointed by Mayor Murphy to examine the City's pension system. Ms. Bradford stated that she did not provide information to the BRC and did not assist Councilmember Madaffer in responding to the BRC Report. She stated that she did not read the BRC Report, was not otherwise aware of its findings, and did not know if any other staff member was tasked with addressing this Report.

Ms. Miller asked Ms. Bradford if she knew Ron Saathoff (Firefighters Union President) and she responded that she did not know him well. Ms. Bradford did not recall any meetings between Mr. Saathoff and Councilmember Madaffer, and was not aware of any inquiries that Councilmember Madaffer had made regarding Mr. Saathoff's pension benefits.

Ms. Miller asked Ms. Bradford if she was aware of Councilmember Madaffer's request for an audit of CERS, and she responded that she was not. Ms. Miller then showed Ms. Bradford a memorandum from City Manager Michael Uberuaga to Councilmember Madaffer and Councilmember Frye, dated May 5, 2003, regarding an audit of CERS (Exhibit 1). Ms. Miller asked Ms. Bradford if she was involved in the preparation of any memoranda regarding an audit of CERS. Ms. Bradford responded that she was not, and did not know if other staff members were involved in this issue or if Councilmember Madaffer would have handled this issue himself. She noted that Councilmember Madaffer was not always consistent in which items he handled himself and which items he delegated to his staff. Ms. McAteer stated that she would be able to provide information on Councilmember Madaffer's request for an audit of CERS, and that this request was made for the first time in a February 2003 Rules Committee meeting. Ms. Miller asked which staff member assisted Councilmember Madaffer with issues arising in the Rules Committee, and Ms. Bradford responded that Dan Coffey (Committee Consultant for the Natural Resources & Culture Committee) did, but that Rules Committee issues might still have been divided among staff.

Ms. Bradford was then shown a document containing handwritten notes, dated April 14, 2004 (Exhibit 2). Ms. McAteer asked Ms. Miller if she knew the author of the notes, and Ms. Miller responded that she did not. Ms. Bradford did not recognize this document.

Ms. Bradford stated that she did not recall bond offering documents or the City CAFR coming into Councilmember Madaffer's office, and did not know the Councilmember's procedure regarding disclosure.

Wastewater

Ms. Miller asked Ms. Bradford if she had any knowledge about the City's wastewater rates. Ms. Bradford responded that she was not aware of this issue and did not handle wastewater issues for Councilmember Madaffer. She stated that Dan Coffey might have knowledge about this issue, since he handled water and wastewater issues. Ms. Miller asked Ms. Bradford if she had heard of Dennis Kahlie (Utilities Finance Administrator), and she responded that she had not. Ms. Bradford stated that she was aware of a Cost of Service Study, but did not

know anything else about it, and did not know Councilmember Madaffer's position on wastewater issues.

Ms. Bradford recalled that Councilmember Madaffer met with lobbyists, but did not know if representatives from the restaurant industry or Kelco attended these meetings, or if sewage rates were ever discussed.

Remediation

Ms. Miller asked Ms. Bradford if she had any suggestions for remediation that she would include if she were writing the Audit Committee's report, and she responded that she did not.

W.F.G.

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EXHIBIT 1

CITY OF SAN DIEGO
M E M O R A N D U M

DATE: May 5, 2003
TO: Councilmembers Donna Frye and Jim Madaffer
FROM: Michael T. Ueberuaga, City Manager
SUBJECT: Audit of the San Diego City Employees Retirement System

This is in response to your memos requesting that a comprehensive performance and operational audit of the San Diego City Employees Retirement System (SDCERS) be performed by a qualified, independent accounting firm. You further recommended that a special Audit Oversight Committee be appointed to oversee the audit of SDCERS and ensure the independence and integrity of the process.

I share your interest in ensuring that comprehensive, independent audits are performed. The following information is provided to advise you as to what the auditing practices related to SDCERS have been, as well as what new audit practices are currently in the process of being implemented.

On an annual basis, the City's external auditors, Caporicci and Larson, conduct a comprehensive audit of the financial statements of SDCERS as required by the City Charter. In addition, the City Auditor and Comptroller's Office performs internal audits of SDCERS which includes audits of benefit calculations and payment processes. Over the past three years, the Auditor's Office has performed eight audits and issued seven reports with findings and recommendations to the Retirement Board. Finally, every three to five years, SDCERS engages an external independent firm to conduct an actuarial audit to verify that the System's actuary is performing critical benefit calculations and annual valuations of the Fund according to accepted actuarial standards. The most recent actuarial audit was performed by the national actuarial firm of Milliman & Robertson in June 1999. Also, the Retirement Board contracts with Callan to quarterly review the performance of its money managers.

Most recently, SDCERS amended its Board Rules and created a fourth standing committee of the Board, the Audit Committee, to oversee the conduct of audits of the Fund and specifically to initiate three new audits. The Audit committee is chaired by Richard Vortmann, President of NASSCO, Inc. and a City Council appointee to the Retirement Board. Joining Mr. Vortmann on this Committee are two other City Council appointees to the Retirement Board, Diann Shipione and Fred Pierce, along with the elected retiree Board Member, David Crow. I am

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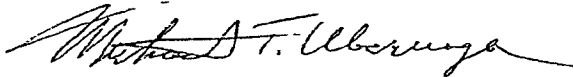
Councilmembers Donna Frye and Jim Madaffer
May 5, 2003
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confident that this Committee has the expertise, business experience and independence to further enhance the auditing of SDCERS.

The SDCERS Audit Committee has indicated that they plan to conduct two separate audits during the next twelve months over and above the audits already being performed. These include: 1) a comprehensive audit of the Fund's investments and investment management procedures; 2) a performance or "best practices" audit of the System's operations and service delivery. Each of these audits will be performed by independent, external auditors who have experience in the type and scope of audit being performed. All audit reports and findings will be submitted directly to the SDCERS Audit Committee and the full Retirement Board, and will become public records once completed. The Audit Committee meets in open session pursuant to the Brown Act.

With the steps outlined above, I believe the regular and on-going auditing of SDCERS and the Retirement Fund will be comprehensive, thorough and independent. As these audits are completed, I will keep you apprised of any significant findings.

Respectfully submitted,



Michael T. Uberuaga

cc: Honorable Mayor and City Councilmembers
P. Lamont Ewell, Assistant City Manager
Ed Ryan, Auditor and Comptroller
SDCERS Board of Trustees

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EXHIBIT 2

2004?

4/14

PRC

Fred Pierce -

- support anything the City Council can do to bolster the system
- need to recognize:
 - as of Feb:
 - \$450m. unrealized gains as of 2/28
 - 80% w/6 converted during 05
 - potentially reducing the UAAL
 - long term solutions

AB -

mtt value 1/31 \$941
PRC used 1/31 smoothed value \$11.61

mtt value is dangerous - could be impacted by huge swing

Peters

- always known mtt plays a big role
- mtt has a big effect
- amt of unfund liab will have effect on the #
- what about smoothing

AB - Smoothing is old practice; mtt value is # on that day

Peters - biggest reason is mlt-

AB - doesn't rec. agree w/ that assumption

Peters - Had the mlt continued to perform as
stayed stable - wouldn't have time
discussions

AB - agree

Peters - 5 yr annuities is std.
Some agree w/ mlt value
some disagree w/ mlt value
+ disagree w/ 5 yr terms on smoothing

Peters - annuity -
is 30 yr annuity - std.
15, 30, 40 - fixed & rolling

are you looking @ other jurisdictions
Cal pers
Connecticut

What about 8% assumption
10 yrs pension payout
cont. exp. come from 10%

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Madaffer -

lost e \$170 (27.94×612)

what if reset to 30 yr amort.

(but if at full, set funding down + means
you are not ~~to~~ req)

is it common to reset amort schedules)

Sachs bee - article on ^{Jaime} country

asked if Ret. comm. has voted on
increasing employee contributions

at what will they be making
rec. on PDBs / how much /
what is gov fund oblig.

report - mid to late May

Frug -

2 concerns

① timing - receive in time to make
budget decisions

② \$70 m diff to settlement
it will augment \$203 m rec.
don't know what is in 2005 budget

How did "it" get so messed up?

people thought it was ok to do underfunding
didn't see this coming

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when are we going to get on
"accounting" of the "process" that
got us here

Can't make decision on budget
don't know what 2003 is going
to look like because don't
have financial report on it

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